Financialization and the multinational corporation

Glenn Morgan

Summary

The terrain on which states, trade unions and social movements confront multinational firms has changed dramatically over the last two decades as a result of two phenomena – the disaggregation of the supply chain and the financialization of corporations. Trade unions and social movements have increasingly challenged the inequalities and unfairnesses which have emerged from the globalization of supply chains. However, issues of financialization, although increasingly high profile since 2008, are treated separately. This article argues that the two phenomena are integrally related and are two facets of the same process of neoliberal globalization. The article proposes that the financialization of the MNC be treated as a global financial value chain (GFVC) analogous to and connected with global commodity chain analysis (GCC). It uses the concept of the global financial value chain as a way of bringing together issues of shareholder value, the growth of the financial markets and financial intermediaries, the use of internal pricing mechanisms and tax avoidance and showing how these link to the broader strategies of MNCs. It argues that trade unions and social movements need to connect together issues to do with the relocation and restructuring of employment with issues of financialization and the need for financial reform. Change will only be effective if it occurs across both these types of value chains.

Keywords

Multinationals: financialization; global commodity chains.

Introduction

The terrain on which states, trade unions and social movements confront multinational firms has changed dramatically over the last two decades as a result of two phenomena – the disaggregation of the supply chain and the financialization of corporations. The disaggregation of the value chain refers to the way in which firms coordinate their activities in increasingly complex and dispersed means involving, in addition to managing traditional overseas subsidiaries, processes of outsourcing, offshoring, network collaborations as well as market based transactions. Financialization refers to the process whereby the objectives of the corporation have been increasingly narrowly defined to the issue of maximizing shareholder value through the treatment of the firm as a bundle of financial assets whose value is expressed solely through market prices at any one point in time rather than as a community of fate which has a past, present and future that ties individuals, groups and societies into complex relationships of social and economic interdependence. The disaggregation of the value chain and financialization are under current conditions integrally tied together. Through their role in the policies pursued by multinational firms, they work together to reduce the influence of states, employees, trade unions and civil society over the organization of employment and production.

Researchers and employees' organizations have found it relatively easier to identify how multinationals have engaged in the disaggregation of the value chain creating what are variously described as global commodity chains (GCC), Global Production

Networks (GPN), global value chains (GVC). These chains facilitate firms escaping from state regulation and reducing the influence of trade unions by various forms of concession bargaining and whipsawing (see e.g. Bair 2009). In order for states, trade unions and social movements to be effective in responding to these processes of value chain disaggregation, new forms of organizing and new institutional structures at national and transnational levels are a minimum requirement (Dorrenbacher & Geppert, 2011; Kristensen & Lilja, 2011; Kristensen & Zeitlin, 2005). The concept of the ‘chain’ or ‘network’ has proved useful for enabling a mapping of the links between particular actors and how value is created and distributed unequally between participants in the chain, (see e.g. the chapters in Bair 2009). Unpacking the value chain has become an important tool for activists concerned to heighten understanding of inequalities in and across different national contexts.

Financialization, on the other hand, although it has been discussed ubiquitously especially since 2008, remains a rather diffuse and elusive concept. This is in part because in academic literature it has been defined in a number of ways ranging from macro theories of the changing nature of society and the economy (Epstein, 2005; Krippner, 2011), through firm level accounts of the increased focus on short-term financial returns for shareholders (Froud, 2006) through to the idea of the financialization of everyday life and individual identity as a result of the web of credit and debt in consumer societies (Langley, 2008; Martin, 2002). The purpose of this article is not to provide a general overview of the literature on financialization but rather to focus on its influence on firms, particularly multinational firms. In this respect, financialization is primarily associated with the following phenomena; firstly the rise of a more dominant and aggressive definition of the role of the firm as being to maximize shareholder value; secondly and associated with this the growth in scale and scope of financial markets as influences on firm strategy; thirdly the focus on the firm as a bundle of financial assets and financial flows to be managed primarily through market prices.

In terms of firm strategy, financialization is in fact integrally related to the issue of the disaggregation of the firm as discussed in the previous paragraph. The two things go together as part of the restructuring of capitalism in late 20th and early 21st centuries. Firms reorganize their boundaries in order to reduce costs, increase efficiencies, improve their flexibility and ability to respond to short-term market changes, and maximize shareholder value. Specific policies include the frequent selling of subsidiaries or units in order to raise short-term cash or cut out operations making losses or below average returns. This in turn is linked to a willingness to dispose of employees and their skills in order to create short-term cost reductions and/or create employment contracts which maximize the employers' flexibility in using employees. Funding for research and development which has uncertain pay and lengthy payoffs is reduced or outsourced whilst short term risk taking is encouraged, e.g. in the case of borrowing in order to expand through mergers and acquisitions or entering the financial markets to make money in the short-term money markets. Rewards to senior executives are linked to stock price and this creates a widening gap within the corporation between top managers, those in the middle on fixed salaries and those at the bottom whose hours are cut and whose wages are held down in the name of cost efficiency. On top of this, financialization is associated with an increased focus on how, when and where the corporation pays taxes on profits and the use of tax havens etc. to minimize tax liabilities.

Multinational firms, in particular, are able to adapt to this new environment of value chain restructuring and financialization because, unlike firms located in a single state, they have the capability of being able to shift around their resources between different national jurisdictions in ways which enable them to maximize financial benefit. They can do this through arbitraging differences across countries in relation to wages, work conditions, regulatory policies of various sorts, tax rates, yields on investment in financial instruments, gains from hedging and/or speculating on price movements in and across different financial markets, as well as gains from raising funds in different financial markets characterised by distinctive financial regulation, interest rate structures and yield opportunities.

Financialization and global value chains are integrally related as they are both part of a broader change in the economy towards the neoliberal vision of free markets that facilitate movement of goods and capital across borders with limited state regulation or intervention. Indeed, the two operate in tandem and reinforce each other. MNC strategies for outsourcing, relocation and the formation of global value chains are dependent on the ability to raise and shift capital across national borders as well as a relative freedom to repatriate profits or leave them offshore; being able to hedge the risks of international activities (e.g. currency movements) or to raise funds for M+A activities in different countries are facilitated through the growth of financial markets and financialization. It is this process of financialization which enables firms to set up new plants overseas, to acquire facilities in other countries through mergers and takeovers, to set up flows of cash across national boundaries to purchase commodities and services from sub-contractors and to transfer earnings in one country back to another. Thus the greater opportunities available to MNCs to strategize across locations is dependent on the free movement of capital and the associated processes of financialization which became increasingly institutionalized under the neoliberal international policy regime established from the 1980s onwards (Abdelal, 2007; Blyth, 2002). The goal of creating global value chains that are less unequal, less exploitative, less divisive is therefore wrapped up with the issue of how to constrain financialization in MNCs.

In recognition of this interdependence between the disaggregation of the value chain and the financialization, this article puts forward the concept of a *global financial value chain* (GFVC) to go alongside such concepts as GCC/GVC/GPN. As with these other concepts, this moves the focus on the MNC from broad notions of globalization and internationalization towards the analysis of a number of specific processes which connect MNCs and financialization. The first part of the article, therefore examines in more detail the concept of the global value chain before showing how the concept of the global *financial* value chain can add a new and necessary dimension to that form of analysis. The following two sections discuss the GFVC in relation to the connection between firstly the MNC and financial markets and secondly the MNC and the state, in particular around issues of taxation and accountability. The final section discusses the implications of this analysis for researchers policy makers.

Identifying the Global Financial Value Chain

The classic early formulation of the key features of the sort of approach being discussed here was in the work of Gereffi which used the concept of the global commodity chain(Gereffi and Korzeniewicz 1994). Drawing on case studies in a small number of globalizing industries, Gereffi emphasized that the growing interdependence between firms in the development, manufacture and retailing of products was occurring as a series of linkages across national borders between independent producers as well as subsidiaries of major MNCs. He distinguished these chains in terms of what he identified as firstly producer driven chains, i.e. with a dominant lead multinational firm concerned to coordinate together large numbers of supplies in order to construct a single complex product and secondly buyer driven chains, i.e. lead firms that were essentially multinational retailers or sellers of branded goods that could be manufactured relatively simply and cheaply in Asia, Latin America and Africa. Whilst later authors (including Gereffi himself) have added to the sophistication of this framework, he identified four essential elements in these chains that are still useful.

1. The idea of an input-output structure; i.e. that products cross organizational boundaries en route to becoming a commodity in order to take advantage of cost differences, scale economies, technological sophistication, specialist skills that exist in firms beyond the organizational boundary.
2. The significance of territoriality; i.e. that this process of crossing organizational boundaries is also a process of crossing territorial boundaries, whether these be considered as local, national, regional (EU, NAFTA) or global.
3. The issue of the governance structure of the chain: these processes are coordinated and governed by particular actors using specific mechanisms in order to maintain control. A key element here is the way in which governance and control issues shape the distribution of value to social actors in the chain; who captures most value from the chain and how?
4. The importance of institutional context: the pattern of movement is shaped by the different institutional contexts which provide distinct opportunities for advantage and benefit to the firm.

Global commodity chain analysis, as its name implies, focuses primarily on materialised goods which are moving and changing as they are passed between nodes in the chain. A *global financial value chain* (GFVC)analysis shifts the attention to the dematerialised sphere of the flows of money between nodes. Standard economic and sociological accounts define money as a means of exchange, a store of value and a unit of account. All these elements come into play in the concept of the GFVC where the focus is on how the multinational and its network use these different characteristics of money in order to maximize financial benefit from the capabilities which they have to move money across borders by firstly exchanging between currencies and engaging in exchange in the sense of loans and borrowings from other entities, secondly storing money in ways that sustain and grow its value (rather than deplete it, e.g. through taxation or through inflation) and thirdly accounting in specific monetary terms for the value of processes and products in ways which enable it to maximize the strategic interest of the firm. A further specific characteristic of money is that it is highly fungible and liquid. It can take many different forms and shift between them relatively easily. Whilst there are certain costs associated with changing form, these are relatively small compared to material commodities. For example, money can change from one currency to another; money can be materialised in bonds and borrowings of various sorts; it can be transformed into lending and investments and changed back again with comparative ease. Financialization has led firms multinationals to focus more on these qualities of fungibility and liquidity; even if they are manufacturing companies, they have to make money out of money by deciding how to shift their funds (and their debts) around the financial markets. Therefore a GFVC analysis is likely to be more concerned than GCC with the rapid changes in form which money takes and how these changes in form enable specific actors to benefit in ways which are often secretive and opaque.

We can understand the concept of GFVC in part by mapping it on to the features of the global commodity chain as described by Gereffi but then noting its different form because of the particular characteristics of money. Firstly, in terms of the characteristic of an input-output model described by Gereffi, the GFVC conceives of the ultimate output of the firm not as a commodity but as a financial flow that grows and shrinks, takes different forms depending on what is done to it and with it, and by whom. As with the GCC, one aspect is that the flow is diverted into the hands of specialists who manage it in a particular way – to grow it further or to protect it from shrinking unnecessarily. These financial specialists have their own networks and practices that enable them to seek out such opportunities which would not be available to the firm on its own. They also extract from this process their own fees, commissions and other benefits.

Secondly as Gereffi describes, many of these flows involve the crossing of national boundaries and therefore engage with the issue of territoriality. Clearly the deep and liquid financial markets of London and New York attract and draw to themselves financial flows from across the world. This relates to Gereffi's fourth point about the importance of institutional context and the fact these centres have agglomerations of expertise, networks of connections, legal and regulatory contexts which whatever the consequences of the 2008 financial crisis continue to be exceptionally favourable to financial markets, financial activity and innovation. Institutional context also relates to territoriality with regard to arbitraging between national jurisdictions on tax issues, including the role of small sovereigns that run as tax havens.

Gereffi's other key element is that of governance. His original formulation in terms of buyer driven versus producer driven governance systems has been superseded most prominently by his later article with Sturgeon et al which described a variety of forms of governance based on a typology drawn more explicitly from transaction cost economics and characteristically distinguishing market governance (transaction based purchasing) from hierarchical governance (in-house management of transaction) and from three types of network governance – described as modular (links managed through tight technological specifications of the interface between elements), relational (high levels of interaction and trust to jointly develop products) and captive (provision of detailed instructions that requires investment in fixed assets and ties the supplier firm to the led firm) (Gereffi et al. 2005). As Bair (2009) points out, this analysis is in danger of losing the focus on power and inequality within the chain which has been central to the adoption of this approach amongst activists. Whilst it is valuable in showing the variety of forms of governance of the GFVC (as well as the GCC) that may exist, it is important to this article not to lose the focus on governance as a political activity, an act of power and a pivotal moment in issues of the distribution of value.

As with the global value chain, the GFVC reveals how the MNC is engaged in coordinating a series of internal and external cross-border relationships in which value is created, captured and distributed through the means of money and financial flows. The links in this chain are subject to strategic action by managers – as with global commodity chains, key decisions revolve around whether to externalize or internalize, where to engage in externalization in terms of locational decisions and how to link internal processes with external actors. However, unlike struggles in the global commodity chain which are often clear to outsiders and have been much studied (Dorrenbacher & Geppert, 2011; Morgan, Kristensen, & Whitley, 2001), the global financial value chain is often treated as a separate set of problems that require a different set of expertise and more difficult for activists and others to engage with even though since the 2008 financial crash there has been increasing efforts to create more transparency to the GFVC (Engelen et al., 2011). The argument, here, however is that these are two manifestations of the same underlying phenomenon of neoliberal globalization and therefore can analysed using a shared vocabulary whilst recognising the distinctiveness of the processes.

The following sections therefore aim to specify in more detail elements of the GFVC; drawing on existing research, the sections point to the key issues to be investigated and how this reflects the integral linkage between GCC and GFVC. The first dimension which is discussed focuses on money as a system of exchange, not for commodities but for itself, and therefore relates to how MNCs engage with the buying and selling of financial products. The second dimension focuses on money as a store of value and a unit of account, considering how the MNC uses its position to sustain the value of its money, in part by the way in which it accounts for internal prices and profitability in order to enable it to maximize its corporate tax advantages. Although these dimensions are intricately related, it is helpful initially to examine them separately.

Financialization and financial markets in the GFVC

As an aspect of the broader transition from a Keynesian world order to a neoliberal international regime, a crucial element has been the freeing of financial markets. This occurred at a variety of levels but key elements for the purposes of this discussion were the gradual unwinding of capital controls, the removal of restrictions on bank lending, the shift to floating exchange rates and the deregulation of financial markets. In the Keynesian era, international trade in manufactured goods was primarily conducted through exports from home countries. Locating manufacturing production overseas was a high cost activity pursued only by the largest and most powerful (usually US based) multinationals, such as Ford and GM in autos. Exchange controls and fixed currencies made for difficulties in terms both of exporting capital and of repatriating earnings. Coupled with the political and economic risks, this constrained most manufacturing firms from foreign direct investment and led to a preference for exports together with some forms of licensing and franchising.

The Keynesian system, however, gradually broke up as imbalances in the global economy undermined currency stability and weakened US dollar hegemony. In response to the rise of new economic powers such as Germany and Japan, the US led the formation of a floating exchange system and the dismantling of capital controls. Countries removed restrictions on the ability of firms to move funds abroad; similarly they reduced barriers to inward foreign investment. This introduced new uncertainties as well as opportunities for financial markets and for multinationals. The opportunities were associated with what was termed the ‘risk revolution’, which involved the development of new sorts of markets, products, technology, organizations (such as credit rating agencies) and expertise to enable actors to assess and monitor risk and to protect themselves against risk (Bernstein 1998). Although futures markets in commodities had long been established, their spread into multiple risk areas and their mutation into more complex products such as options and derivatives only began in the 1980s .

Managing these processes involved new forms of coordination between the MNCs and finance. Firstly, the MNC had to access sources of capital that could be invested overseas. Increasingly, the self-financing of such activities from retained profits or the use of rights issues was negatively received by stock markets which preferred to prioritise returns to shareholders in the form of dividends or stock buy-backs. Bond issuance became the preferred option, particularly as interest rates were low during the late 1990s and 2000s (Lazonick and O'sullivan 2000; Thompson 2012). Investment banks paid a key intermediary role in setting up bond issues, underwriting them and selling them to their clients. They also established increasingly complex ways in which to construct bonds and to provide ‘protection’ in the form of credit default swaps including the use of credit rating agencies to determine the riskiness of the bond (Morgan 2010). Secondly, MNCs had to access the currency markets which facilitated this process of overseas investment as well as enabling routine tasks of switching between currencies. Thirdly it had to access the financial markets that enabled it to hedge risks associated with this, especially the derivatives market. Fourthly, it had to access short term money markets (based on anything from an overnight transaction to a 12 month lending period) in order to either borrow money to meet its debts or lend money to use its surplus.

From a GFVC point of view, there are three important features of these relationships. The first is that the sorts of markets and services described are essentially managed through the dominant global financial markets, i.e. London and New York where the largest and most liquid markets for bond capital, short-term lending, foreign exchange and derivatives products exist. Multinationals, no matter, where their home location, are by virtue of their requirement for such services, drawn (to varying degrees) into the ambit of Anglo-American capitalism. What this means is that these markets run essentially on the basis of price competition, loose regulation and fierce competition for returns to shareholders in the financial institutions, a process that has only been partially affected so far by the crisis of 2008 and subsequent efforts at reform. This is not to say that there are not other locations around the world which also provide these markets. However what is noticeable is that the main actors in these markets are often those which are large and powerful in New York and London and the products and services, whilst subject to certain local variations, are generally designed, framed and managed by these actors from these international financial institutions. These locations remain the biggest and most liquid markets with the widest range of investors, intermediaries and borrowers. Thus GFVCs invariably at some point go through these locations. This makes GFVC much less varied than GCC in geographical terms since they all are likely to interconnect with these two specific locations. This is important because it undermines any simplistic ideas about MNCs being predominantly defined by their home origins as in some versions of Varieties of capitalism literature which emphasize institutional origins and conseuwqent distinctive structures of firms, e.g. between coordinated market economies like Germany and Japan and liberal market economies like the UK and the US (Hall and Soskice 2001). Home origins are important, not because they potentially separate and insulate the MNC from these financial markets but because they affect the degree and nature of the interconnection of the MNC with these specifically located financial markets. The point therefore is to research how strong these connections are and how they affect the MNC.

The second point which directly connects to this is that these centres are networks of linkages between different sorts of financial intermediaries, mostly engaging directly in financial markets and in the provision of advice and services to MNCs. The pre-eminence of New York and London derives from the deep-rooted path dependent advantages that have accrued there from the long-term presence of multiple inter-connected firms and institutions. These agglomeration effects have been associated with regulatory regimes that have, particularly in the post-Keynesian period, facilitated high levels of innovation in financial products and design. Active here have been the large international banks that emerged as creators of credit for the MNCs, as suppliers of different currencies, as channels for the movement of capital, as advisers to the companies, as the predominant players in the new emerging financial markets for bonds, as innovators in new products and services (such as risk hedging derivatives instruments) that supported this changed environment. Alongside and interconnected with these institutions were the large institutional investors running pension funds, mutual funds etc. on behalf of large and small savers who managed funds on the stock market increasingly from an aggressively short term perspective. Gradually, these types of investors were supplemented by the rise of 'alternative investors'. One group of such investors were the hedge funds that were unregulated institutions specialising in highly risky and individualised trading opportunities using arbitrage techniques that became ever more specialist and complex as they were connected to derivatives instruments. The other main group which gradually emerged were the private equity partnerships which used easy credit to buy up companies and then restructure them aggressively focusing entirely on financial performance and maximizing arbitrage possibilities across sources of funding, taxation systems and potential buyers for the restructured business.

The centrality of these intermediaries to the financial markets and to MNCs has a number of effects. Firstly it takes out of the MNCs huge amounts of money in terms of fees and commissions. These fees and commissions together with other earnings have continued to pump up the size of the financial sector in the US and the UK, making them an ever more magnetic draw for MNCs form all over the world. Secondly this pattern of GFVC places MNCs in market contexts where they are subjected to very high pressure to buy financial services in which they may have little expertise or knowledge but where they are promised high rewards. Thirdly, this is an artificial marketplace because many of the financial institutions are willing to take on high risk and to pass this on to their MNC clients as high return because they (the financial institutions) are often ‘too big to fail’ (Sorkin 2010) and can expect to be rescued by national governments for fear of bringing down the whole economy. MNCs themselves have no such guarantees but they are likely to be attracted to the high returns offered by high risk investments. Fourthly, the rise of these intermediaries was associated with a rise in a new orientation to the role of finance in the firm and in the economy more generally. The goal of all of these actors was to extract more value from the firms by changing the orientation of senior managers towards an increasingly financial orientation to assets and growth.

This dimension of the GFVC reveals how strongly embedded MNCs have become in the dominant financial markets of Anglo-American capitalism and how the rules of this market diffuse. MNCs cannot ignore these markets because the flexibility and advantages which are the positive side of this involvement are important weapons in competing on global markets even if they come with risks attached. The question, however, arises as to how far MNCs from different sectors and different countries are drawn into these markets. There is no doubt that states can stand out against elements of this by regulating their MNCs, limiting access to their home financial markets to the global firms, providing some services themselves (such as lending through state owned or controlled banks) but these sorts of controls are generally limited to emerging economies such as Brazil, Russia and China which are sufficiently powerful economically to engage in this and resist the pressure of the US, the international financial institutions and the global banks. MNCs from coordinated economies such as Japan and Germany keep part of their ownership structure protected to reduce aggressive takeovers but in many other ways such as bond issues, treasury functions, hedging, currency exchange etc. are now implicated in these Anglo-American markets. How far this impacts on their decision-making needs much further research but the basic point is that these entities are increasingly connected with the financial markets and have themselves GFVCs that can be traced through these locations. Systems which retain more coordination of economic activity through concentrated long-term ownership and where the shareholder value model of the firm still competes with other forms of ownership that are more ‘patient’ and locked-in are less likely to engage full scale in the sort of GFVC described

(Morgan & Whitley, 2012; Whitley, 1992, 1999, 2007). State control and distinctive forms of ownership are likely to create differences across MNCs in terms of how their GFVC is organized. Nevertheless it is clear that wherever the MNC is based, it will engage in GFVC activities through London and New York, through the powerful intermediaries described and through doing so will become increasingly tied to the fate of those actors and the markets in which they compete.

This leads to three points in conclusion to this section. Firstly, it is important to examine more extensively and empirically the nature of these GFVCs across a variety of MNCs from different contexts. How far, in what ways and with what impact are they linked into the dynamics of the financial markets? During the financial crisis, the depth of integration of banks of various sorts across Europe's coordinated market economies into Anglo-American liberal market capitalism's high risk financial markets became clear. We know less about how manufacturing MNCs engage in these markets and with what effects. Secondly, activists, trade unions and social movements should explore more specifically the ways in which MNCs are integrated into these markets as this is likely to make a substantial impact on the degree to which the policy of management is oriented towards the firm as a bundle of financial assets or a more complex interdependent set of economic and social relationships. Thirdly, reform of the financial markets in London and New York should continue to be a central issue for many reasons but not least in terms of importance should be the impact that interdependence with these markets has for MNC's policies on disaggregation and development.

Financialization and the MNC: Money as a store of value; money as a unit of account

The second dimension of the GFVC model draws on the two other aspects of money. Money is a unit of account; it measures and evaluates, provides signals internally and externally of the activity of the MNC. An account also places money; it describes where it is stored and with what effect. So the chain to be followed is the process whereby value is accounted and money is stored.

The first issue of the unit of account relates to the question of internal pricing in the MNC where financial flows are constructed in ways that shape the terrain on which local actors such as trade unions and states engage with the management of the

MNC. It is important to recognise that much of the problem here lies in the internal processes of the global financial value chain in terms of how value is allocated at different parts of the chain through transfer pricing. Within the MNC, the prices of goods and services which cross transactional boundaries is administratively set. This is not to say that there are not market comparators which can be used to give a legitimacy to the prices; also there are accounting rules which exist to in theory limit the amount of discretion exercised by management. But ultimately, there is a range of variation which reflects the discretion exercised by management, in spite of these constraints, about where costs and revenues are going to be allocated. This has massive implications for trade unions and for states; Sikka, for example, describes 'transfer pricing as the biggest tax avoidance scheme of all'.(see 'Shifting profits across borders: Prem Sikka Guardian: Comment is Free, 12 Feb 2009).

It is also important that for multinational firms there are a relatively small number of global accounting firms (known as the Big Four) that play a central role in introducing internal accounting systems, building rules about 'fair accounting practice' through worldwide global standard setting organizations and finally engaging in auditing the accounts which are produced by the MNCs. These firms grew up and developed within the framework of Anglo-American capitalism and their most powerful offices remain based in the US and the UK. They shape the rules through which internal pricing systems work.

From the point of view of local actors seeking to influence subsidiaries and multinationals with regard to their employment strategies, transfer pricing makes it very difficult to get a picture of the performance of individual subsidiaries beyond that provided to them by top managers and their accounting advisers. The allocation of central overheads and other costs to subsidiaries can make their actual profitability seem very unclear. Pricing certain services or components to the subsidiary at high rates can also make it very difficult to determine the viability of particular operations. Thus managers in local operations may be able to threaten employees with downsizing or relocation on the grounds that the local plant is losing money when this is in effect an outcome of the accounting procedures being used. It is very difficult for unions to penetrate this opacity because of lack of expertise. They end up accepting this view of the financial situation when it is an artefact of the way in which the accounts are produced. This has crucial implications for activists, trade unionists and social movements engaged with MNCs. Critical accounting academics have for long emphasised the need to see ‘accounts’ as just that, i.e. not purely technical representations of an underlying reality but a representation that serves a political purpose because it involves a choice in how, what and when to measure activity inside the MNC. From the perspective of GFVC, therefore it is important to challenge such representations and bring to the surface the assumptions which are built into them. This is clearly a difficult task given the technical complexity of accounting inside multinationals but it is a necessary part of GFVC analysis and has a direct impact and link to global commodity chain analysis in terms of understanding how decisions on the location of production of material goods are made and the impact of this on employment.

The second issue relates to the notion of money as a store of value. This assumes that money has been accounted for and now something has to be done with it to ensure that its value is preserved. The earlier section discussed aspects of this process such as hedging against various sorts of risk. In this section, however, the focus is on preservation through reducing corporate tax liabilities. This is a clear contribution that can be made by GFVC analysis – it has location elements, institutional elements and governance elements since it concerns how MNCs distribute their earnings across different tax jurisdiction. MNCs are engaged in a process of regulatory arbitrage to ensure that their tax liabilities are minimised (Picciotto, 2011). Accounting firms through their advice and their auditing are central to both the practice and the legitimacy of such activities. States continue to differ in terms of corporate tax rates, in terms of allowances against tax liability, in terms of enforcement and monitoring. This creates huge potential for regulatory arbitrage and shifting liabilities from one tax regime to another. There are at least two aspects to this issue. One is the interplay and competition between developed states over corporate rates of tax and allowances against tax. Amongst developed states, this is partially a competition over tax revenues but it is to an important extent a weapon in the battle over the global commodity chain. Corporate tax rates are kept low in order to attract FDI which then leads to employment gains in the firm and its local supply chain with broader positive effects for goods, services and employment in the local area.

The second is the rather different problem of tax havens which are effectively micro-states with very little industry of their own (Palan, Murphy, & Chavagneux, 2010; Shaxson, 2011). These states have constructed tax regimes specifically to attract the funds of MNCs. The positive externalities in terms of employment are likely to be limited and the more important consideration is the creaming off of a portion of the income from these services by politicians and the local elite either directly or indirectly (through the provision of various forms of services to those managing or investing these funds).

From the point of view of the multinational, this opens up a variety of options about how and where taxes should be paid along the global financial value chain. Again the financial institutions from the global centres involve themselves in providing advice on this, building organizational structures and processes that shift funds around so that tax obligations can be met with at the lowest possible levels.

With regard to micro-state tax havens, this involves the creation within the MNC of specific subsidiaries that can be incorporated in these environments and to which income can be directed. As many of these tax havens lack transparency, the beneficial ownership of incorporated entities can be concealed making it difficult for tax authorities from other states to follow through their investigations. Thus the tax havens serve a dual function of both concealing profits and their ultimate owners *and* reducing tax liabilities.

These processes can also be affected by specific aspects of the assets of the firm which can also direct financial flows away from manufacturing centres and towards other locations. The whole issue of intellectual property rights (IPR) has been looked at from this perspective since MNCs have increasingly taken to allocating IPR to specific subsidiaries, usually in environments where there is a tax advantage due to high allowances and low taxes on anything that can be associated with innovation and the development of IPR. Companies have increasingly done similar things with other intangibles such as brands, resulting in national subsidiaries having to pay other subsidiaries for the right to use the company’s branding.

These costs and liabilities are shifted around by financial managers in ways which seek to maximize regulatory arbitrage and to weaken the power of local actors to oppose and contest the figures. The MNCs use their financial advisers to help them extract from local setting value and this in turn is distributed to the advisers for their services and to shareholders. Once again, MNCs tie themselves into the financial markets and the financial institutions. Although the degree of this varies depending on national institutional origins, there is little doubt that it occurs to a certain degree in all large MNCs and is a central part of their competitive strength and strategies.

Conclusions

The argument of this article has been that it is necessary to uncover the financialization of MNCs. This can be done by developing the idea of the global financial value chain (GFVC). This is an integral part of uncovering the restructuring of multinationals in the era of globalization and neoliberalism. It complements the existing global commodity chain analysis and reveals that these are two sides of the same coin. The disaggregation of the value chain is only possible because of the financialization of the firm and the financialization of the firm is accomplished through the disaggregation of the value chain which treats the multinational as a set of financial assets that can be bought, sold and reorganized to achieve maxiumum financial returns to shareholders.

As with global commodity chains (GCC), GFVC are constructed through a series of links between the MNC and other firms and between parts within the MNC. However, the distinctive nature of money as described here, means this works in a specific way. Firstly money is a system of exchange and because it is so fungible and liquid, it can be exchanged quickly into different forms. The managers of MNCs under conditions of financialized capitalism have to manage their funds with this in mind and they are therefore continuously engaged in processes of exchange, turning money into new forms of credit and debt, into different currencies, into different financial products. They do this strategically by engaging with financial intermediaries and markets which are locationally specific for reasons to do with utilising the arbitrage opportunities available to the MNC. Thus money is continually being exchanged and changed in form which enables financial flows to pass and in along chains where value is extracted and redistributed.

What is most obvious about these flows in the GFVC and contrasts with the GCC, the extraction is highly concentrated geographically as London and New York as centres of global financial markets are the sites through which many of these funds flow on their way to different destinations. This pattern of flows also places funds into the hands of what is in global terms a relatively small group of financial intermediaries, whether those are institutional investors, international investment banks dealing in complex financial products or international professional service firms such as lawyers, accountancy firms and management consultancies. This concentration enables such actors to take through fees, commissions, market deals etc., significant parts of these financial flows into their own treasuries and to distribute value to their own top managers, market-makers and shareholders. In GCCs value is distributed around different parts of the world even if this is highly uneven. In relation to the GFVC, however, the bulk of the extraction occurs in a few highly financialised centres. It is in these centres that MNCs aggregate their wealth and manage it (using the financial intermediaries to provide them with returns on short term lending). It is in these centres where they access capital, mainly through bond issues. It is in these centres that the markets for corporate control are enacted. It is here that complex financial products for managing risk – in commodity prices, in interest rates, in credit defaults, in currencies – are provided. Although there are subsidiary financial markets in other parts of the world, they often act as nodes in a series of links and pipes that enable financial flows from these lesser markets to the dominant ones in London and New York. These pipes are owned and managed by the same small group of global investment banks, who shape the overall contours of the system and reinforce shareholder value as the core concern of the company.

Secondly the GFVC is shaped by the nature of money as a unit of account. Inside the MNC, accounting systems shape internal pricing mechanisms; these systems allocate central overheads and other costs to the various units of the firm in ways which enable the attribution of characteristics such as 'loss making' or profitable' to particular locations. These systems and such attributions actively construct these outcomes; they are not simple reflections of an underlying reality; they create that reality and have real effects on future plans for the MNC. GFVC analysis therefore points to the need to be sceptical about such accounts, to the need for continued efforts to produce alternative accounts and for activists, trade unions and employees to continue to press for transparency of internal financial information as parts of campaigns to respond to changes in global commodity chains such as employment shifts, wage pressures, whipsawing, coercive comparisons and outsourcing in multinationals.

Thirdly, the GFVC is shaped by money as a store of value and in particular, the strategies pursued by MNCs to preserve value for their managers and shareholders by engaging in tax arbitrage and differential tax rates. This in turn relates to issues of transfer pricing, of the establishment of offshore special purpose vehicles, the allocation of certain corporate assets to particular tax jurisdictions where they incur least cost (e.g. IPR). Recent years have seen increased focus on this by both governments and activist organizations. This is not surprising given the scale of tax revenue which can be lost as a result of these activities. Once again this aspect of the GFVC has a level of geographical concentration in two senses. Firstly, key expertise in the development of such schemes resides in New York and London as well as some associated centres such as Amsterdam. Secondly, the location of tax havens, although seemingly growing, is still limited to a relatively small number of jurisdictions which by reasons of specific historical factors to do with geography and/or imperial connections, have evolved in distinctive way.

In conclusion, a full understanding of the MNC requires an understanding of the process of financialization and the global financial value chain. This is necessary to engaging with MNCs' strategies as a whole in terms of the whole process of restructuring and creating global commodity chains. Together GCC and GFVC uncover the key processes in the policies and practices of the MNC. GFVC analysis shows the centrality of the global financial markets in London and New York to multinationals from many different locations. Engaging with these markets creates risks as well as benefits for MNCs. The variety of forms of engagement is still relatively under-researched. What is the influence of different varieties of capitalism on the degree of this interaction? Similarly how far is it possible to use national states to increase transparency of internal pricing which has such a central influence on the power and politics of actors in MNC subsidiaries? The third element of the GFVC was described in terms of money as a store of value and the way in which MNCs arbitrage their tax responsibilities. Again very little is known in detail about the degree of variation that exists amongst MNCs in terms of the use of these mechanisms. Researchers need to focus more on uncovering the specific characteristics of GFVC just as has been done by authgors such as Gereffi, Bair, Sturgeon et al in relation to global commodity chains.

From the point of view of activists and trade unions, this analysis suggests that it is important to treat issues of the redistribution of jobs arising from the disaggregation of the supply chain as integrally related to the financialization of the MNC. It is ultimately going to be ineffective tackling one without the other. The GFVC shows that issues of financial reform need to be pursued alongside issues of employment justice in the workplace. Financial reform implies the central importance of challenging the myth of the corporation as solely concerned with shareholder value, of regulating financial markets to ensure that risks are reduced and the inevitable fungibility and liquidity of money is not an excuse for gambling by institutions that are 'too big too fail'. Controlling finance requires stronger efforts to separate its function as a medium of transaction and exchange from its function as part of what Strange long ago called 'casino capitalism (Strange 1997)see also (Thompson 2013). It also requires opening up the inside of the MNC so that there is greater transparency about how prices are set internally and how costs are allocated so that there can be more open debate about the allocation of attributes such as loss-making to particular entities This is an essential part of moving towards more collaborative modes of economic organization. Thirdly, this needs to go alongside continued focus on corporate tax liabilities and building systems that make these transparent and fair, together with enhancing cooperation across different jurisdictions to overcome tax havens. This article has tried to develop a framework within which many efforts to critically engage in research terms and in terms of political activism with these two central aspects of the contemporary MNC – the disaggregation of the value chain and financialization- can be achieved.

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